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ASSISTANCE FOR THE RECONSTRUCTION AND DEVELOPMENT OF EL SALVADOR

Report of the Secretary-General

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I. BACKGROUND

1. The situation in El Salvador is characterized by its long-standing need for national economic and social reconstruction and for the construction and consolidation of a new democratic State.

2. The Peace Agreement, signed on 16 January 1992, between the Government of El Salvador and the Frente Farabundo Martí para la Liberación Nacional (FMLN) laid the groundwork for ending 12 years of a political and military conflict which caused the loss of approximately 75,000 lives, the displacement of 500,000 persons, the exodus of another 1 million persons and aggravated the long-standing crisis in the Salvadorian nation's economic and social structure. Both the Peace Agreement and the conditions in which El Salvador is entering its post-war period, are exceptional. The United Nations system has been requested to provide support for the reconstruction and consolidation of peace by assuming roles which also are exceptional, including the monitoring of compliance with the Peace Agreement and of the effective exercise of human rights.

3. The Peace Agreement contemplates, inter alia: (a) the demilitarization of the country, the transformation and reduction of the Armed Forces of El Salvador (FAES) and the demobilization of FMLN and its integration into society; (b) the substitution of the former military police by a new National Civil Police, recruited from the new National Public Security Academy; (c) the reform of the judicial system by establishing the National Council of the Judiciary and its Judicial Training School, and the National Counsel for the Defence of Human Rights; (d) reform of the electoral system; and (e) economic and social measures that contemplate, inter alia, the establishment of a Forum for Economic and Social Consultation and the implementation of a National Reconstruction Plan.

4. El Salvador is embarking on its reconstruction process with an economic base equivalent to that of a quarter century ago. When this Government took office in the late 1980s, the gross domestic product (GDP) in real terms was 13 per cent less than the high figure of 1978 and equivalent to that of 1974, while per capita real income was down to levels similar to those of the early 1960s. At the end of 1989, the trade deficit was more than US$ 500 million (13.4 per cent of GDP) and the fiscal deficit was still high (4.8 per cent of GDP).

5. Bilateral assistance from the United States of America and growing family remittances from abroad helped to offset both external imbalances and dwindling family income and national economic activity. Remittances increased tenfold during the 1980s and are estimated to have amounted to $760 million in 1989, 53 per cent more than exports and equivalent to 15 per cent of GDP.

6. El Salvador has accumulated a significant social debt. Two thirds of the population is living in poverty, of whom one third in extreme poverty. This is evident, inter alia, from the following: the infant mortality rate (56 per thousand) is above the average for Latin America (42 per thousand); the fact that 47 per cent of children under five years of age suffer from some form of malnutrition; the educational coverage (56 per cent) is low (the average person in El Salvador has 4 1/2 years of schooling and 30 per cent of the population is illiterate); and the fact that there is a shortage of around 500,000 housing units.

7. The damage caused to physical, productive and social infrastructure (energy, transport, telecommunications, education and health, water supply and sewage systems, housing, agricultural and municipal) during the 1980-1990 period is valued at over US$ 1.5 billion. The cost of replacing the infrastructure or repairing the damage is approximately US$ 1,630,000,000, reflecting the extent of physical reconstruction to be done.

8. Compounding the economic, political and institutional obstacles arising from the conflict are serious population and environmental problems. El Salvador has a population of approximately 5.4 million living on 21,000 sq km of national territory, making it the most densely populated country of the Americas (254 inhabitants per sq km or 380 inhabitants per sq km of arable land). Because of its traditionally high population density and poverty rates, and the fact that, until recently, it had no environmental policy, El Salvador today has the highest degree of soil erosion (65 per cent), the most polluted water system (90 per cent) and the highest rate of deforestation of all the Latin American countries.

9. From the time it took office, the current Government has made the achievement of peace a priority objective. In compliance with the above-mentioned Peace Agreement, a National Reconstruction Plan is being implemented together with a process of democratic strengthening through a number of institutional reforms that redefine and give new direction to some of the existing institutions and establish other new ones.

10. Under the Economic and Social Development Plan (1989-1994), the Government has set the following basic objectives: (a) laying the groundwork for the gradual eradication of extreme poverty; (b) achieving sustained medium- and long-term economic growth; (c) reducing the State's leading role; (d) fostering full and efficient use of the country's resources. These objectives are consistent with the principles of a social market economy. The Government has taken this economic initiative, in part, in the short term, under the stabilization programme agreed with the International Monetary Fund (IMF), and in part, in the medium and long term, under the economic adjustment programme supported by the World Bank. The goal is to achieve an annual economic growth rate of 5 per cent by the mid-1990s.

11. In order to minimize the impact of stabilization measures on the country's most vulnerable groups, in the social sector, the Government has financed social welfare and productive projects in the poorest communities. Moreover, it is carrying out a Social Sector Rehabilitation Programme (education and health) in order to supplement the economic adjustment programme.

12. In order to reduce State intervention, the Government is laying the groundwork for modernizing and trimming the public sector and enhancing its management capacity. As part and parcel of the process of modernizing the State, the Government has defined new conditions in order for the private sector to play a greater role in the development of El Salvador. To this end, it launched a process for the privatization of the financial sector, and for doing away with monopolies and price controls.

13. Regarding the full, efficient use of the country's resources, the Government has drawn up an environmental agenda and a national environmental

emergency plan with the aim of setting priorities, coordinating efforts and focusing activities to counteract the severe deterioration of natural resources.

14. The current Government took office in adverse economic conditions; however, through the implementation of its development plan, it has realized major achievements. With relatively moderate levels of inflation and external debt, a stable exchange rate, a per capita GDP that has been rising since 1990, and considerable flows of external resources for 1993 and 1994, El Salvador's medium-term economic outlook can be said to be encouraging. It will, however, have to deal with fiscal and trade imbalances that have continued to grow in the past two years due to the increase in demand linked to the process of peace and reconstruction, and economic recovery. It will also have to increase its growth rate and achieve a better pattern of distribution in order to improve the living conditions of two thirds of its population and, particularly, the poorest one third.

15. Reconstruction and sustained economic recovery and the peace process are interdependent, but both affect progress towards the macroeconomic balances necessary to consolidate economic growth and democratic peace.

II. ECONOMIC SITUATION IN 1992 AND GOVERNMENT PLAN FOR 1993

A. Economic situation in 1992

16. For the third consecutive year, GDP in real terms and per capita GDP grew, moving up to 4.6 per cent and 2.1 per cent in 1992, while inflation hovered around 20 per cent and the fiscal and trade deficits stood at 5.6 per cent and 17.6 per cent of GDP, respectively. The increase in both, largely related to the implementation of the Peace Accords and to economic recovery, was offset by the high levels of family remittances (US$ 702 million) and official aid (US$ 227 million).

17. Economic growth was achieved with the start of recovery in the agricultural sector (6.7 per cent) and the steady expansion of construction (8 per cent) and manufactured goods (6 per cent). Although non-traditional exports, chiefly to Central America, increased by 28 per cent, export earnings remained unchanged because of the 30 per cent drop in the price of coffee and cotton on the international markets, while the value of imports increased by 23 per cent, owing to increased demand generated by the peace and reconstruction process and the economic recovery.

18. The non-financial public-sector deficit (including grants) increased to 4.1 per cent. On the expenditure side, the deteriorating fiscal picture is explained by the unforeseen costs of the peace process and by the larger operating deficit of the energy authority as a result of the drought. On the income side, it can be attributed to lower tax revenue, owing to the drop in prices of coffee exports, and delays in adjusting electricity rates and taking other tax administration measures. In the final six months of the year, the Government introduced a package of measures that included the adoption of the 10 per cent value-added tax and higher water (20 per cent) and electricity (30 per cent) rates. None the less, government revenue - excluding grants -

represented only 12.3 per cent of GDP, and the tax coefficient was below 9 per cent, reflecting a serious tax evasion problem.

19. In 1993, the medium- and long-term external debt balance was US$ 2,006,000. Of this, 87.7 per cent was incurred by the public sector, which has drastically increased its share of the total debt from the 1980 level of 40.3 per cent. As a result of the policies implemented since 1989, El Salvador has improved its creditworthiness with the international financial community. While the moderate external debt is not a critical problem at this point, the low level of exports and the large deficit on current account could make it difficult to arrange for financing of the investment and economic growth that will be required in the medium term. Hence, the current borrowing policy is, justifiably, cautious.

20. Fiscal fragility and the public sector's restricted access to domestic resources have increased dependency on grants and loans from abroad and limited the extent to which the Government can act to adjust monetary policy for purposes of promoting stabilization, to realize special expenditures on peace and national reconstruction and to effectively tackle the huge social debt.

21. The general picture in El Salvador at the end of 1992 was marked by a gradual upsurge in production within the framework of a still incomplete stabilization and adjustment effort and considerable accumulation of social problems.

B. Governmental Plan 1993

22. The main macro-economic objectives for 1993 are to maintain the rate of economic growth (4.5-5.0 per cent), to reduce inflation (10-12 per cent) and the fiscal deficit (5.4 per cent of GDP), and to strengthen the current account of the balance of payments. One of the basic postulates is to safeguard the results of the stabilization efforts and to maintain strict control of liquidity.

23. With regard to the execution of programmes for consolidating peace and national reconstruction, this means that a large part of the expenditure will have to be financed with external funds and that the additional demand will have to be satisfied by increased imports in order to avoid an excess of liquidity.

24. El Salvador already has one half of the funds necessary to finance priority reconstruction programmes. These amount to $1,534 million to be spent over four years and will be assigned to the National Reconstruction Plan (76 per cent) and to other priority projects; between 1993 and 1996 the financial shortfall will amount to $769 million.

25. Since the stabilization programme restricts the extension of the fiscal deficit and its financing with internal resources, the Government considers that the only viable short-term alternative is to increase the share of the international community. Over the medium term, the Government considers that advances in the adjustment programme, together with the opportunities that will arise for the reallocation of arms expenditure, will release internal resources for self-financing. This, in its turn will open up greater chances of obtaining

the external resources necessary for medium-term stabilization, economic reform and the peace process.

26. At the moment the economy is in a phase of economic reactivation which may be prolonged for several more years but whose structural fragility can only be overcome in the medium term. While the process of stabilization and structural adjustment has advanced, it is far from being complete and even farther from being consolidated. The accumulated social problems and the decline of the infrastructure are enormous and the new consolidation phase of the peace process will make great additional demands on the country.

27. The sustained economic recovery and the peace process are interdependent but both affect progress towards the macro-economic balances necessary to consolidate economic growth and democratic peace. The attainment of these objectives will require an enormous effort of national restructuring and a renewed international financial effort in what remains of the present decade, especially from 1993 to 1996.

III. ADVANCES, LIMITATIONS AND PROSPECTS FOR NATIONAL RECONSTRUCTION AND THE STRENGTHENING OF DEMOCRATIC INSTITUTIONS

28. National reconstruction and the strengthening of democratic institutions are the central pillars of peace-building and consolidation. Progress in democracy will determine progress in peace.

29. One of the main instruments of the national reconstruction effort is the National Reconstruction Plan. Its main objectives are to promote development in the war-ravaged zones, to meet the most immediate needs of those who have suffered most during the war, to care for the ex-combatants on both sides, to rebuild the economic and social infrastructure and to make the reforms necessary for the development of democratic institutions. 1/

30. The establishment of a new State based on democratic participation and respect for individual human rights will be directly associated with the creation and strengthening of democratic institutions and with the necessary legislative reforms. This will allow the members of Salvadorian society to solve their problems gradually through democratic and judicial institutions. At the same time it will create the legal and institutional conditions necessary for absolute respect for human rights.

A. Advances, obstacles and prospects for the National Reconstruction Plan and the development of democratic institutions

1. National Reconstruction Plan

31. With the execution of the contingency phase of the National Reconstruction Plan, El Salvador sought to respond to the most urgent problems which arose during the 12 years of political and military conflict. The Government concentrated on the priority needs of the people hardest hit (including

residents, new settlers and repatriates) and provided them with basic services. At the same time, productive and training activities were designed to generate employment and income over the short and medium term for settlers and ex-combatants with the aim of facilitating their reintegration into civilian life.

32. Even though the first phase was successful, the Plan encountered considerable obstacles and problems. These included differences between the central Government and the municipal governments and also between certain non-governmental organizations and FMLN with regard to the following subjects: (a) the allocation of resources to physical reconstruction and to other economic and social projects; (b) the participation of local communities in decision-making; (c) the channelling of resources, the execution of the projects and their implementation capacity; (d) the transparency of information regarding resources; (e) the delays in the provision of external resources and the budgetary limitations of the Government in responding in time to the priorities derived from the Peace Accords and from the agreements reached with the different beneficiaries; and (f) the distribution and financing of the lands in the former conflict zones.

2. Development of democratic institutions

33. The resources promised by the international community for the development of democratic institutions were received late and in most cases were insufficient. As a result, the execution of the priority programmes was delayed. Nevertheless, El Salvador achieved important advances in the critical areas of public security, elections, human rights and the judicial system.

34. The National Public Security Academy began its educational operations in September 1992. During its first two years, the Academy was to produce 5,700 graduates at the basic level and 240 graduates at the executive and senior level; after one year it had produced 1,500 at the basic level and 120 at the higher level. These gradually joined the National Civil Police which began its functions in October 1992. After one year they covered 7 out of the 14 departments, replacing the members of the former National Police.

35. The National Counsel for the Defence of Human Rights started to operate in July 1992. It began its task with great enthusiasm but encountered administrative deficiencies and a limited national coverage which may require active reinforcement in cases of serious human rights violations. 2/ The report of the Commission on the Truth includes specific recommendations to strengthen the work of this institution so that it can better fulfil its mandate.

36. The Legislative Assembly has appointed the National Council of the Judiciary and its educational organ, the Judicial Training School. In the coming months the Council will select the lists of three lawyers from which the legislative organ will appoint the future members of the Supreme Court of Justice. It will begin its new session on 1 July 1994. The executive branch is encouraging a broad programme of legislative modernization in order to meet the needs of the new society. Both legislative and executive organs have submitted requests for international financing so that they can continue to operate and develop smoothly.

37. The new Electoral Code prepared by the political parties meeting within the National Commission for the Consolidation of Peace has been published. The Supreme Electoral Tribunal adopted and is implementing the recommendations of a technical mission of the United Nations Electoral Division invited by the Government in August 1992. Two of the most important tasks of the Supreme Electoral Tribunal were the updating of the electoral register to include all citizens qualified to vote and the provision of voting facilities on the day of the election. On 1 June 1993 the Electoral Division of the United Nations Observer Mission in El Salvador was established and entrusted with observing the electoral process, which will culminate in the general elections of March 1994. 3/

B. Financial requirements, response of the international community and the Government's contribution

38. Recently, the Government submitted to the international community (at the meeting of the Consultative Group on 1 April 1993 in Paris) the financial requirements necessary to support the priority programmes. They amount to $1,533 million to be spent over four years. Of these $1,161 million were to be used to finance the programmes included within the National Reconstruction Plan, divided in the following way: $851 million (73.4 per cent) would be used to fulfil the undertakings of the Peace Accords ($534 million to strengthen democratic institutions and $317 million to help reintegrate ex-combatants into the economic life of the country) and $310 million (26.6 per cent) would be allocated to projects designed to alleviate poverty within the framework of the Plan. The remaining $372 million would be allocated to poverty programmes outside the areas of the Plan.

39. Of the total of $1,533 million, the Government has promised to provide $403 million (26.3 per cent) while the external assistance promised amounts to $362 million (23.6 per cent) leaving a gap of $765 million (49.9 per cent). The financial requirements submitted to the Paris Consultative Group would therefore be $769 million broken down as follows:

(a) $476 million to fulfil the undertakings derived from the Peace Accords ($267 million for the strengthening of democratic institutions; $210 million for the economic reintegration of ex-combatants);

(b) $293 million for programmes to reduce poverty ($105 million as part of the National Reconstruction Plan and $188 million not assigned to the Plan).

C. The role of non-governmental organizations

40. In El Salvador the non-governmental organizations gained recognition within society by the response they were able to give to specific human needs during the conflict. They helped to guarantee the survival of thousands of persons who were compelled to move and to seek protection and refuge.

41. Since before the signing of the Peace Accords, within the same framework of negotiations, the International Conference on Central American Refugees 4/ process in El Salvador has constituted one of the most typical examples of

dialogue and agreement between the Government, the non-governmental organizations and the donor countries, with the participation of the United Nations through the Office of the United Nations High Commissioner for Refugees and the United Nations Development Programme.

42. During 1992, within the framework of the Conference, mutual trust was built up in a lengthy and complex process. This led the Government to propose projects to be executed by the non-governmental organizations on behalf of the peoples affected by the conflict. International resources were requested through the non-governmental organizations with the knowledge of the Government and the Government showed a greater tolerance towards those organizations for the use of the resources in question.

43. However, relations between the Government and a large number of non-governmental organizations were confrontational. These situations arose partly because of political and ideological disagreements but also because the areas of intervention were in the war zones where people were supposedly involved in guerrilla operations.

44. The Government recognizes implicitly that the non-governmental organizations are an important means of gaining access to the local communities and encouraging them to promote their own development. However, many of them are very slow to obtain recognition of their legal personality. This is somewhat contradictory because they participate in discussions and/or in the execution of projects under the responsibility of governmental organizations.

45. These practices of consultation have helped to bring about a greater convergence between the targets and aspirations of the communities and those of development plans. Clearly, the non-governmental organizations are increasing their participation in various activities carried out by the Government, whether they are directly linked to the process of reconstruction or included in the implementation of sectoral policies. Nevertheless there are matters still pending that need to be discussed and agreed upon.

46. In the interest of ensuring that projects are sustainable and that democratic institutions are expanded, the non-governmental organizations and the communities with which they are working want the Government to consult them as part of its policy of implementing the National Reconstruction Plan. The non-governmental organizations realize that the present peace scenario requires new initiatives based on lasting solutions. These initiatives must ensure that the whole social fabric is knitted back together and must encourage those who have been uprooted to return to productive life. This policy should bring the people closer to the Government so that it, in turn, can enlarge the role of society in the decisions that affect its future. In this context, the National Reconstruction Plan may well strengthen the relationships between government and people to the extent that their implementation strategies can agree on what still remains to be done.

D. Economic and social reintegration

1. Land

47. While the land negotiations between FMLN and the Government have continued, only 59 per cent of the first-phase area has been handed over to 63 per cent of the beneficiaries. Of all the properties negotiated which belonged to private owners, only 25 have been finalized; there is a backlog of 186 properties which are at different stages of legalization before their final transfer is completed.

48. During this period, the second stage of the process was begun although the first stage had not ended. This was foreseen under the Accords and was justifiable because of the proximity of the sowing season planned for the first two weeks of May. During this time, negotiations were held on 31 properties with an area of 1,869 manzanas which benefited 623 ex-combatants.

49. The four main problems which have arisen in the transfer of lands are:

(a) The difficulty for FMLN to prepare lists with the names and identity card numbers of ex-combatants corresponding to each one of the properties negotiated. Of the 211 properties being negotiated, 96 still do not yet have complete lists.

(b) The legal process necessary to transfer ownership of the lands, which is entrusted to the Lands Bank of the Government, is slow and cumbersome.

(c) The problem of credit has been a subject of concern because most of the recipients have not received the title for the transfer of the property. The Government agreed to extend credit to recipients who had already negotiated the acquisition of the property, even though the final papers had not been obtained. However, there still remains the problem of those recipients who have still not initiated negotiations. These represent 46 per cent of the area to be negotiated and 40 per cent of the recipients.

(d) There is a lack of funds to finance the acquisition of land during the first stage because of the negotiating price (an average of $860 per manzana) and the fact that the second stage has begun before the first has ended. It is felt that talks should begin immediately with friendly Governments to increase the funds available and to avoid the programme becoming bogged down through lack of finance.

50. Generally speaking, the land transfer programme is advancing but not at the rate to be desired if the process is to end in the course of 1993.

2. Emergency assistance and training

51. On the basis of a document drawn up between the Government and FMLN concerning an emergency demobilization programme, UNDP appealed in November 1992 to donor countries to give financial support to the demobilization process. UNDP established a trust fund to finance the subprogramme under which FMLN ex-combatants would be trained so that they could be reintegrated into the

economic and social life of the country. A similar initiative was taken to train the ex-combatants of the armed forces.

52. Other agencies and organizations of the United Nations participated in the formulation and execution of this subprogramme. It included the World Food Programme, the Food and Agriculture Organization of the United Nations, the International Labour Organisation, and the Development Programme for Displaced Persons, Refugees and Returnees (PRODERE). It provided agricultural training to 6,230 ex-combatants of FMLN in order to help their reintegration into productive life. It included a subsistence allowance and food up to the time when the participants could work the land that was transferred to them. There were three broad areas of training: administration and organization, management of natural resources, and agricultural techniques. It began on 16 November 1992 and concluded on 17 April 1993. The cost was $3,108,361 of which the Government contributed $335,297 and other Governments (Sweden, Norway, Netherlands, Switzerland, France and Denmark) contributed $2,773,065.

3. Care for the war-disabled

53. One of the most representative agreements reached between the Government of El Salvador and FMLN was the pledge to promote laws and policy measures to benefit the wounded or disabled together with their families and civilian war victims. The initiatives designed to benefit this sector of the population include the medium-term reintegration programme (within the framework of the National Reconstruction Plan) and the Law on the Protection of the War Disabled which entered into force on 22 January 1993.

54. Under the first programme, two projects are being implemented. The first, begun in December 1992 and financed by USAID, provides medical care for ex-combatants of FMLN. This project lasts a year and is being carried out jointly by the Ministry of Public Health and Social Welfare and the Secretariat of National Reconstruction (SRN). The second is a training project with workshops for wounded soldiers of the Salvadorian armed forces who have not yet been demobilized. This project also is being financed entirely by USAID and carried out by SRN.

55. The Law on the Protection of the War Disabled establishes a fund to give institutional support to those who were wounded and disabled in the conflict. The beneficiaries of this Law will include wounded and disabled civilians and ex-combatants from both sides. The Law covers those who lost their principal economic support during the war. It also envisages specific services, depending on the character of the disability, and appropriate benefits whether in the form of a pension or in kind (prosthesis). The Fund will also provide medical and rehabilitation services and will be financed by the Government and the international donor community.

56. Delays occurred in the formation of the Fund's Executive Board which, according to the Law, was to have come into operation 90 days after the entry into force of the Law itself. There was also a delay in extending legal personality to two of the organizations representing the wounded of FMLN and FAES. These delays, together with concerns about the lack of resources to support the Fund and of productive opportunities for the disabled gave rise to serious tensions. As a result, there was a demonstration which ended in a

violent confrontation and caused the death of one person. At the request of the Government, the Legislative Assembly subsequently approved a postponement of the Law for 30 days during which the Executive Board was formed and the Government promised to obtain the resources necessary to ensure its operation. Nevertheless, the lack of resources to support the operation of the Fund has caused concern about its viability.

57. The European Economic Community is financing a project entitled "Productive reintegration of the war-disabled", made up of three components: physical rehabilitation, training and credit. The first phase, financed jointly by UNDP and Canadian Cooperation, will prepare a "National Census of War-Disabled" which will provide a database of reliable information concerning the beneficiaries and will thus help to ensure the viability of the project.

4. Housing

58. The National Reconstruction Plan envisages a housing programme which will provide permanent dwellings for ex-combatants and the disabled of the Armed Forces and FMLN. The Government emphasizes that equal treatment will be given to both sides and that the coverage of the programme will depend on the availability of external resources.

59. Two building systems will be used: prefabricated and mixed. The beneficiaries will supply the necessary manpower and the land. They will receive 60 per cent of the value of the house as a direct non-reimbursable subsidy. The remaining 40 per cent will take the form of a mortgage credit (with a 15-year term at market rates of interest and with the house itself as collateral).

60. In April 1993 at the Consultative Group meeting convened by the World Bank, the Government submitted a document outlining the financial requirements and the technical assistance necessary to carry out a housing programme for demobilized members of FAES and FMLN. This request is partly the result of the housing negotiations which have been taking place every week since December 1992. These negotiations, between members of SRN and the Fundación 16 de Enero with UNDP participation, are being coordinated by ONUSAL.

IV. CHALLENGES AND EXPECTATIONS

61. Since the signing of the Peace Accords, national reconstruction and the building of democratic institutions have made great strides. This policy is the central axis for the consolidation of the democratic peace process in El Salvador. Nevertheless, the shortfall in resources needed to finance an important part of the reconstruction and development programmes and to finance the programmes designed to strengthen democratic institutions still threatens to undermine the success of this consolidation.

62. In carrying out the pledges that it has made, the Government:

(a) Must accelerate the land transfer programme;

(b) Must ensure the honesty of the electoral register; the inclusion in the rolls of approximately 700,000 citizens; and the free and massive participation of the people in the voting.

63. With regard to the shortfall in resources, opportune provision of external funds has become critical for the implementation of the National Reconstruction Plan, the strengthening of democratic institutions and the implementation of the adjustment process within the framework of economic and social stability and the sustained growth of productive activity.

64. The strengthening of public order and the holding of free, transparent and participatory elections will be particularly important in the coming months. The National Civil Police and the electoral process will require strong support.

65. The depoliticization and gradual specialization of all non-governmental organizations and the strengthening of their administrative, executive and financial capacity constitute a growing need for the more effective participation of civilians in the process of reconstruction and national democratic development. Such growing and effective participation cannot be a substitute for the regulatory role of the State, which must be strengthened.

66. The peace process in general and the reconstruction and national democratic development in particular have advanced considerably since the signing of the Peace Accords. The process is now entering the mainly consolidatory phase which coincides first with the most important general elections in the modern history of El Salvador and, immediately after, with the completion of the special role of the United Nations.

67. The Salvadorians, and only they, must intensify rapidly and consistently the process of national reconciliation. After the inauguration of the new Government, they must build a firm and lasting peace within a regime which is democratic, pluralistic and truly participatory; within a reactivated and transformed economy set firmly on the path to sustainable human development; and within a modern and independent State under the rule of law. Against this background and in the face of this challenge taken up by a small great nation, the international community must provide the financial resources necessary to consolidate and conclude this extraordinary experiment and this example of peace, reconciliation, reconstruction and development.

Notes

1/ This Plan is part of the Government's Economic and Social Development Plan. It tackles the economic, social, and environmental aftermath of the war and includes provisions to meet social and human needs; the rehabilitation of the infrastructure; the encouragement of the productive sector; the management of the environment; and technical assistance. The Plan also contains reforms for strengthening democracy, as agreed during the Peace Accords. These include the Forum for Economic and Social Consultation, and new democratic institutions such as the National Civil Police, the National Counsel for the Defence of Human Rights, the Supreme Electoral Tribunal, and the National Council of the Judiciary. The Plan is being implemented in two phases: a short-term contingency phase initiated immediately after the cease-fire and designed to

meet urgent health, education, environment and democratic needs; and a five-year medium-term phase that is under way. The Plan is now being implemented in 115 of El Salvador's 265 municipalities.

2/ See report of Mr. Pedro Nikken to the Commission on Human Rights (E/CN.4/1993/11).

3/ On receiving the Secretary-General's report on El Salvador (S/25812 and Add.1 and 2), the Security Council decided to establish an Electoral Division to observe the general elections of 20 March 1994. This Division was formed on 1 June 1993 and will complete its task 10 days after the said round of elections, or one month later if there is a second round (see resolution 832 (1993) of the Security Council).

4/ The International Conference on Central American Refugees was opened in Guatemala in May 1989 by the Secretary-General of the United Nations. It was the most important initiative to provide humanitarian aid and to mobilize resources on behalf of the uprooted populations of Central America. It produced broad agreements at the regional and national levels and did much to strengthen the peace process.

ANNEX

Poverty reduction and other programmes relating to areas of national reconstruction

1. The poverty reduction effort and other national reconstruction programmes include a group of important projects, the most outstanding of which are:

1. Rehabilitation of social sectors

2. This project achieved considerable progress during 1992, mainly in the expansion of basic education and primary health care services in the municipalities hardest hit by the conflict. By the end of 1992, 142 community educational associations (ACEs), corresponding to an equal number of class sections (8 for kindergarten, 74 for first grade and 60 for second grade), had been established through the Education with Community Participation Programme (EDUCO) in 47 of the 115 municipalities where the National Reconstruction Plan (PRN) is being implemented. These sections have been provided with the necessary teaching materials and ACE members and teachers have been trained.

3. In the area of health, the number of health units and health unit workers has increased, particularly in the municipalities covered by the Plan. At the same time, personnel from the Ministry of Health have been transferred to risk-free maternity activities; health outreach workers and birth attendants have been trained; qualitative research on food and nutrition education has been launched and will also cover the municipalities included in the Plan.

4. The Ministry of Education and the Ministry of Health will be provided with computer equipment, vehicles, motorcycles, medicine, and medical and other equipment in order to enhance their capacity to deliver the services they provide to the poorest population, which is largely concentrated in former conflict zones. To that end, around 30 procurement orders have been processed through national and international public bidding and direct purchases amounting to US$ 4.8 million. Some of the goods have already been delivered to the Ministries.

5. The decentralization of education and health services is one of the main challenges that must be dealt with. It has been met very successfully in the education sector, as the community educational associations have been an effective mechanism for bringing these services to communities which are removed from decision-making centres and poorly serviced by the Ministry. There is some question as to the Government's capacity to maintain this system of providing educational services, expand them at the national level and raise the educational levels, since EDUCO has been and continues to be financed mainly by a World Bank loan.

6. Progress has also been achieved in the decentralization of services in the health sector. The Ministry of Health, with the support of a number of donors, has promoted the establishment of local health systems (SILOS), which are already functioning officially in certain communities. In this regard, there has been concern as to whether the Ministry and other institutions (NGOs,

international organizations, etc.) will be able to make SILOS the focal point for decentralizing health services.

7. Another important element of this project is the reform and modernization of the Ministry of Education and the Ministry of Health so that they will be able to provide their services more efficiently and effectively. This area includes the decentralization of services, in which considerable progress has been achieved. Little headway has been made thus far with respect to internal reform in order to streamline bureaucracy, simplify administrative procedures and establish new management systems in all areas. In this regard, both Ministries have some way to go before they are reformed and modernized.

2. IFAD Chalatenango

8. The general objective of the project concerning development for populations affected by the conflict in the Department of Chalatenango is to increase the income and improve the general living conditions of rural populations affected by the conflict, and of small agricultural producers, the demobilized, "landholders", displaced populations and fishermen in the Department of Chalatenango. This objective is expected to be achieved by stimulating and promoting productive development and its capitalization and by strengthening the Department's grass-roots organizations.

9. The project will be financed mainly by the International Fund for Agricultural Development (IFAD), and supplementary financing from other institutions. Its formulation was begun following the United Nations inter-agency mission for the National Reconstruction Plan, carried out in February 1992 after the signing of the Peace Agreement. Although implementation of the project has only recently begun, there are high hopes that it will become the most important integrated development project in a department that has been severely affected by the war and is also one of the poorest departments.

10. The implementation of this project will pose a challenge to all participants, since it involves innovative participatory schemes and mechanisms with the participation of the communities or beneficiaries, NGOs, the Government and others. In this respect, it will become a force for consultation and coordination among the various sectors of Salvadorian society.

11. The above aspects make this project very special and it will therefore require special efforts by the international organizations participating in it, particularly UNDP, which is expected to play a catalytic role.

12. The success of this project could be jeopardized by elements that are closely related to the plan for its organization, implementation and financing. There is a danger that the broad participation and consultation which the project is intended to foster might become an obstacle to effective and efficient execution. The participation of certain financing agencies is not guaranteed and, hence, key areas of the project may be without funds.

3. IFAD Paracentral

13. The project entitled "Technical Assistance for the Agricultural Development of Small Farmers in the Paracentral Region" is being implemented in two

departments (San Vicente and Cabañas), which were very hard hit by the conflict. Therefore, nearly all of the municipalities in those departments are beneficiaries under the National Reconstruction Plan, which comprises the framework for the project.

14. This project provides technical assistance to another larger project financed by IFAD and the Central American Bank for Economic Integration (CABEI), which includes credit, organization and training. Thus, the progress achieved in the technical assistance project financed by UNDP and that achieved in the one financed by IFAD/BCIE is presented as if there were only one project.

15. The most outstanding achievements thus far are the following:

(a) Organization of the project and its start-up in the field in the first quarter of 1993;

(b) Establishment of the research and technological testing programme, which includes around 80 demonstration plots;

(c) Establishment of local credit committees at the Extension Agencies of the Centro Nacional de Tecnología Agrícola (National Centre for Agricultural Technology) (CENTA), where banker and agricultural extension worker are brought together;

(d) Initiation of the training programme for technical experts from the Agricultural Development Bank and the project, and for farmers. It is expected that 980 persons will be trained this year;

(e) All project personnel have received training on the topic of rural women and gender training. Evaluation and follow-up tools have also been reviewed from a gender perspective;

(f) One thousand and fifty-five applications for credit have been received (the target for 1993 being 900 loans) together with 793 investment plans covering training, organization and technical assistance; 676 loans have been extended to 676 farming families;

(g) Technical assistance is already being provided to producers who have received loans;

(h) The basic diagnostic survey of the zones covered by the project will be initiated shortly. It will later serve as an evaluation and follow-up tool.

16. The project has great potential for success, as the staff is highly motivated and the communities have responded rapidly and are participating very actively in it. It is hoped that the project will be operating at full capacity in 1994. However, there are still some obstacles to be overcome in the short and medium term, including:

(a) Insufficient flexibility and responsiveness of institutions responsible for the management and oversight of the use of loan funds, such as the Ministry of Finance, the Department of External Financing (SETEFE) and the Audit Court;

(b) A change of outlook is needed on the part of the Agricultural Development Bank, which is the institution through which credit is channelled to farmers, so that it may become an effective instrument for promoting the integrated development of small rural farmers, instead of viewing this type of project simply as a form of credit;

(c) Lack of equipment such as vehicles, motorcycles and other equipment that would be of great help in the work of the project, since transportation must be available to all communities.

17. One important aspect which should not be overlooked is the fact that an agricultural development project such as this creates expectations in other areas that it does not cover. The Government does not have the resources to provide a large portion of the rural productive population with all the services offered under this project, nor is it prepared to do so.

4. Social Investment Fund

18. In 1990, within the framework of the Economic and Social Development Plan 1989-1994, the Government of El Salvador established the Social Investment Fund as part of its social strategy in order to offset the adverse effects of the structural adjustment programme on the poorest population and in order to facilitate the transition period during which reforms were carried out in Ministries in the social field.

19. From the outset, UNDP has supported the Social Investment Fund through three technical cooperation projects which have helped to develop the Fund's managerial and institutional capacity to respond effectively and efficiently to the demands of El Salvador's poorest population.

20. By developing its installed project management capacity (which includes promotion, identification, selection, project evaluation and follow-up, and the design of model projects in education, health, the environment, water supply and sanitation and others, assessment of the impact of Fund-financed projects and other studies and consultancy services provided to top management), the Fund has been able to meet its goals satisfactorily; with the launching of the National Reconstruction Plan in 1992, these goals were extended to the municipalities hardest hit by the conflict.

21. With the technical and managerial strengthening in all areas provided to it by UNDP, the Fund has achieved the following results within the framework of executing the National Reconstruction Plan:

(a) Identification, promotion, financing and follow-up to the execution of 442 projects in 115 municipalities affected by the conflict. The total comes to US$ 6.7 million and has been used, inter alia, for rehabilitation, reconstruction and equipping of schools and health stations, drinking water supply and basic sanitation, construction of latrines and efficient stoves and nutrition for children five years of age and under;

(b) Promotion of participation by communities and local governments in satisfying the population's most urgent needs;

(c) Rapid and efficient use of the first loan from the Inter-American Development Bank (IDB) for US$ 33 million.

22. The biggest challenge now confronting the Fund is to respond properly and in a timely manner to the demands of the population, mainly in the former conflict zones.

23. An accumulated total of US$ 40 million has been requested from the Fund for 3,000 projects, at least half of which is earmarked for municipalities covered by the National Reconstruction Plan. The Fund, however, has run out of resources to continue financing projects, although negotiations for a second IDB loan are continuing and disbursements may be received by the end of 1993. In view of this situation, the Fund has applied to UNDP for a "bridging loan" of up to US$ 15 million, to be repaid once IDB makes the disbursements. If the Fund does not respond to the urgent demands of the communities the risks are enormous, as the Fund makes the bulk of the social investments in El Salvador, mainly in former conflict zones.

24. Outstanding among the other goals that the Fund must still achieve is the management of productive projects, training and organization for productive work. The Fund has been subject to financial and technical limitations in its work in this area, on the one hand because the Inter-American Development Bank, its principal financial agency, has confined its scope of action to social infrastructure projects and, on the other hand, because the Fund's personnel has not yet been trained to work in this area.

5. Development Programme for Displaced Persons, Refugees and Returnees (PRODERE)

6. International Conference on Central American Refugees (CIREFCA)

7. Projects for Vulnerable Groups

25. Maternal-Child Community Centres: this project to fund 800 mother-child community centres has been formulated and implemented by the National Office of the Family for municipalities in extreme poverty identified in the National Reconstruction Plan. It consists of identifying 800 premises (schools, community and/or parish houses) in which the maternal/community centres could operate.

26. Every centre would provide food (snack and lunch, basic diet), health care (preventive care) and education (early stimulation) for an average of 20 children between the ages of two and six, with three mothers acting as care-givers. The centres will be funded in 99 municipalities included in the National Reconstruction Plan and the process will be staggered over time. By the end of the project a total of 16,000 children will be receiving care. Every three months, fifty centres will become operational; by the end of the fourth year, all 800 centres will be functioning. As presented in the document of the World Bank Consultative Group Meeting, a total of US$ 11.3 million would be required of which the Government of El Salvador will finance US$ 1.1 million, leaving US$ 9.4 million to be funded.

27. Community banks: this programme, which targets the have-nots, focuses on women in marginal urban areas as the main actors and beneficiaries. It is intended to generate sources of financing in marginal communities in order to improve the clients' economic conditions. The Bank enables its members to become credit recipients, affords them the opportunity to generate income and encourages them to make a habit of saving, which will later help them to enter the country's productive life, strengthen micro-enterprises and ensure their own economic independence.

28. As the Government indicated at the Consultative Group Meeting convened by the World Bank, the amount of financial assistance to community banks is US$ 8 million, of which the Government will finance US$ 900,000, leaving US$ 1.4 million to be funded.